

Weekly Stock Market Commentary

July 24, 2020

Sajjad Anwar, CFA
Chief Investment Officer

After a strong rally during the first half of the month, amid large intraday swings, the benchmark KSE 100 Index rose by 277 points (0.7%) during the week ending July 24th, making it the 5th consecutive week of positive returns. To put things into perspective, the market has delivered a robust return of 9.3% during month-to-date, while it has surged by 38% from its bottom hit on March 25th. What caused this strong rally at the local bourse? In our view, this remarkable performance of the stock market is attributable to positive developments on the public health front, encouraging economic data, and effective policy actions. New infection cases in the country have declined substantially since last month, fatalities have decreased significantly, and recovery ratio has increased remarkably. Resultantly, active cases have dropped to 29,000 from the peak of 109,000. From the perspective of the external account, the country came out as net beneficiary of Covid-19 induced economic disruption as resilient workers' remittances, a large contraction in imports, and some decline in exports have led to FY20 Current Account Deficit (CAD) of just USD 3 billion versus USD 13.4 billion in FY2019.

In terms of participant-wise activity during the week, Foreign Investors remained main sellers in the market, offloading positions worth USD 9.3 million. Alongside, Banks/DFIs and Broker Proprietary Trading sold stocks worth USD 6.6 million and USD 4.2 million. On the other hand, net buying was witnessed mainly from Companies, Insurance, and Individuals to the tune of USD 7.3 million, USD 7 million and USD 6.9 million, respectively.

What lies ahead for the market? We reiterate our view that the market would take cue from the path of virus, development of an effective & universal vaccine, and the associated pickup in economic activity. On the vaccine development front, according to the WHO, there are more than 150 Covid-19 vaccine candidates in the different stages of development while three vaccines are at the final stage of trial. The vaccine developed by the University of Oxford along with pharmaceutical company AstraZeneca has shown the most promising results. Another vaccine being made by Chinese pharmaceutical firm Sinovac Biotech has entered the final stage of testing this week and Moderna Inc's vaccine has also reached final trial.

From the valuation standpoint, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 7.5x and Price-to-Book value of 1x. The market also offers a healthy dividend yield of 5.5%. We hold positive view on the stock market for FY21, and beyond given: (i) attractive valuations as captured in the Earnings Yield of 13.3%; (ii) benign near-term inflation outlook and accommodative monetary policy; (iii) a healthy corporate earnings growth over the next 2-3 years; (iv) expectations for flow of funds towards equities after a sharp drop in returns on alternative fixed income avenues ; and (v) manageable Current Account Deficit (CAD) and fairly valued currency.

Bottom Line: We advise investors with a medium-long term investment time horizon to consolidate their position in the stock market through our stock funds, which have a track record of outperforming the stock market.